

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLAY COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Clay County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$14,486 from the prior year, resulting in excess fees of \$73,337 as of December 31, 2009. Revenues decreased by \$164,289 from the prior year and expenditures decreased by \$149,803.

Debt Obligations:

Capital lease agreements totaled \$3,696 as of December 31, 2009. Future principal and interest payments of \$3,696 are needed to meet these obligations.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Clay County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2010 on our consideration of the Clay County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Clay County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 18, 2010

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	6,972	
Fiscal Court			31,011
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	639,973	
Usage Tax		838,095	
Tangible Personal Property Tax		999,553	
Notary Fees		2,226	
Other-			
Fish and Game Licenses		3,950	
Marriage Licenses		6,497	
Occupational Licenses		754	
Entertainment and Solicitor License		45	
Deed Transfer Tax		12,937	
Delinquent Tax		233,140	
Affordable Housing Trust Fund		16,488	2,753,658
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		7,160	
Real Estate Mortgages		3,677	
Chattel Mortgages and Financing Statements		56,433	
Powers of Attorney		816	
All Other Recordings		26,465	
Charges for Other Services-			
Candidate Filing Fees		2,000	
Copywork, Postage, Phone & Fax		13,872	
Miscellaneous		2,434	112,857
Interest Earned			664
Total Revenues			2,905,162

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 469,427
Usage Tax	812,942
Tangible Personal Property Tax	402,515

Licenses, Taxes, and Fees-

Fish and Game Licenses	3,810
Delinquent Tax	26,010
Legal Process Tax	17,106
Affordable Housing Trust Fund	<u>16,488</u>
	\$ 1,748,298

Payments to Fiscal Court:

Tangible Personal Property Tax	77,400
Delinquent Tax	19,820
Deed Transfer Tax	12,290
Occupational Licenses	<u>622</u>
	110,132

Payments to Other Districts:

Tangible Personal Property Tax	466,535
Delinquent Tax	<u>126,542</u>
	593,077

Payments to Sheriff 3,431

Payments to County Attorney 34,022

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	176,621
Part-Time Salaries	7,800
Overtime	973

Employee Benefits-

Employer's Share Social Security	19,790
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Contracted Services-

Printing and Binding	240
Computer Software and Support	7,913

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 FREDDY W. THOMPSON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	17,149	
Other Charges-			
Conventions and Travel		4,834	
Dues		1,805	
Postage		2,513	
Miscellaneous		3,805	
Capital Outlay-			
Office Equipment		<u>11,570</u>	\$ 255,013
Debt Service:			
Lease Purchases		<u>1,344</u>	
Total Expenditures			<u>\$ 2,745,317</u>
Net Revenues			159,845
Less: Statutory Maximum			<u>79,380</u>
Excess Fees			80,465
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,528</u>	<u>7,128</u>
Excess Fees Due County for 2009			73,337
Payments to Fiscal Court - February 11, 2010		73,289	
February 23, 2010		<u>48</u>	<u>73,337</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Clay County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Clay County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Grant

The Clay County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$12,822. No funds were expended during the year. The unexpended grant balance was \$12,822 as of December 31, 2009.

Note 5. Lease

The Office of the County Clerk was committed to a lease and maintenance agreement with Pitney Bowes for a postage machine and scale. The agreement requires a quarterly payment of \$336 for 60 months to be completed on October 18, 2012. The total balance of the agreement was \$3,696 as of December 31, 2009.

Note 6. Cash Drawers

The County Clerk maintains \$700 in the cash drawers which is used for making change to customers. This money will be returned to the County Clerk's official fee account at the end of his term.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl Sizemore, Clay County Judge/Executive
The Honorable Freddy W. Thompson, Clay County Clerk
Members of the Clay County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clay County Clerk for the year ended December 31, 2009, and have issued our report thereon dated August 11, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comment and recommendation that we consider to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clay County Clerk's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 11, 2010

COMMENT AND RECOMMENDATION

CLAY COUNTY
FREDDY W. THOMPSON, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY

The County Clerk's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the bookkeeper's duties consist of receiving cash, recording cash, preparing bank deposits, preparing and signing checks, posting transactions to the ledgers, reconciling bank records to the ledgers and preparing monthly, quarterly and annual financial reports. Additionally, we noted that disbursement checks require only one signature.

When one person has control over all accounting functions the risk of inaccurate financial reporting or misappropriation increases. To offset the lack of segregation, the County Clerk has instituted compensating controls as evidenced by the auditor during audit procedures. Auditor evaluation of those compensating controls determined that they operate at a level of efficiency sufficient to reduce the deficiency from a material weakness to a significant deficiency. We recommend the County Clerk segregate duties or institute additional compensating controls such as:

- An individual independent of report preparation should compare daily Avis computer totals to the daily receipts as evidenced by the reviewer's initials on the reports.
- An individual independent of financial report preparation should compare source documents to the report as evidenced by the reviewer's initials on the report and the supporting documentation.
- An individual independent of check preparation should review cancelled checks prepared in comparison to the supporting documentation. As evidenced by the reviewers initials.
- An individual independent of bank reconciliation should compare bank records and ledger to the reconciliation as evidenced by the reviewer's initials on the reconciliation and supporting documentation.
- All disbursements should be signed by two individuals; when possible one of those individuals should be the official.

County Clerk's Response: None at this time.

